INTRODUCTION AND SUMMARY

1.01 This policy provides a framework for the fiscal operations of University stores that will ensure compliance with sound accounting principles and government regulations. Both are essential elements in supporting the educational and research mission of Oklahoma State University (OSU or the University). Although there is a wide variation in size, complexity, and services provided by stores, they should maintain common administrative practices. This policy addresses those administrative features and provides examples of billing rate structures and the steps involved in building such rates.

This policy will be effective as of July 1, 1996, and will involve changes in the budgeting, accounting and, in some cases, operating practices of the University's stores. To comply with the policy as of the effective date, it is necessary that stores develop new rates and incorporate the policy changes into the budget process as of March of each year.

REGULATIONS

2.01 Store activities can result in charges, directly or indirectly, to federal grants and contracts at OSU. In connection with the receipt of these funds, the University must comply with the United States Government's Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions (Circular A-21), Cost Accounting Standards (CAS), as it pertains to stores (or "service centers"), and any subsequent regulatory or statutory requirements as promulgated.

2.02 OMB Circular A-21
The principles set forth in Circular A-21 provide recognition of the full allocated costs of such research work under generally accepted accounting principles. No provision for profit or other increment above cost is provided for in charging accounts that will be billed or eventually allocated to the government. Circular A-21 stresses the need for consistency in treatment of costs as pertains to the government.
Section J.44 of Circular A-21 deals specifically with stores. The section is explicit in two concepts:

a. recipients of federal funds are not to recover more than cost; and

b. they are not to discriminate in the price of services charged to government users and to nongovernment users.

The concept of nondiscrimination, however, does not preclude the institution from charging external users higher rates for services in order to recover overhead costs. The rules set forth in Circular A-21 also allow that breakeven (recovery of not more than cost) may be achieved over a long-term basis if agreed to by the recipient and the cognizant government agency. Circular A-21 also does not preclude the application of prudent business practices (recovery of interest expense from internal borrowing) as long as such charges are not passed through to federal programs and indirect cost calculations.

2.03 Cost Accounting Standards
Research institutions must now comply with Cost Accounting Standards 501, 502, 505, and 506. Essentially, these standards promote consistency and uniformity in cost accounting. The four standards pertain to:

a. consistency in estimating, accumulating, and reporting costs;

b. consistency in allocating costs incurred for the same purpose;

c. treatment of unallowable costs; and

d. the cost accounting period.

Each of these standards is implicit in this policy.

2.04 Government Oversight
The federal government monitors OSU's compliance with these regulations through its cost and audit cognizant agencies. Examples of compliance issues raised by these government officials in the past include the rate setting methodology and treatment of unallowable expenditures including interest, replacement of equipment, and use of reserves. To minimize exposure from noncompliance with the regulations, it is of the utmost importance that stores comply with the following policies and procedures. The University's exposure from noncompliance with federal regulations could involve reimbursement to the government as well as adverse publicity which could harm future award applications.

STORE DEFINITIONS
3.01 A **store** (also referred to as a service center) is defined as an operating unit providing services, a group of services, or products to users principally within the University community for a fee. The services may range from highly specialized to typical, necessary functions. Often they cannot be provided as effectively or efficiently by other sources. A store develops a rate for the activity based on actual *incurred costs* and charges users for their *actual usage*. OSU distinguishes three categories of stores, generally defined as follows:

- **Specialized service facilities** are defined as highly complex or specialized facilities. The rates of these facilities should consist of both direct and indirect (facilities and administrative) costs of the store and a share of University overhead costs. Only those stores designated as specialized, as determined by OSU, will be required to set rates based on a full allocation of costs. Refer to **part 12.01** for further discussion.

- **Major stores** are all store operations that have total annual expenditures of $500,000 or more *per business*.

- **Minor stores** are all store operations that have total annual expenditures of $50,000 or more *but less than $500,000*. All store operations with annual expenditures less than $50,000 will be known as **recharge accounts** and will not be subject to all of the procedures outlined in this policy. Recharge accounts should normally constitute a pass-through of direct costs only. For example, space and equipment costs typically are not allocated to recharge centers for recovery through the chargeout rate. Costs for recharge centers must be *segregated* in a separate account. Rates must be based on direct costs and must be applied uniformly to all users. Refer to the recharge account policies and procedures for further guidance.

3.02 Internal and External Users

**Internal users** of stores are defined as existing under the University umbrella including academic, research, administrative, and auxiliary areas which purchase services to support their work at OSU. This includes all state agencies that report to the Board of Regents for Oklahoma State University and A&M Colleges. In addition, the OSU Education and Research Foundation, Inc. (ERF) and the OSU Foundation are considered internal users.

**External users** are organizations or individuals that do not report to the Board of Regents for Oklahoma State University and A&M Colleges. External users include any members of faculty or staff, *acting in a personal capacity*. Refer to **part 10.02** for procedures on billing external users.
RESPONSIBILITIES

4.01 Dean
Ultimate responsibility for the store rests with the Dean (or equivalent for nonacademic stores). The Dean (or his/her designee) has the responsibility to:

a. fully review and approve the establishment of each new store prior to a new store account being requested from Grants and Contracts;

b. review and approve all major store rates within his/her unit with the advice and consent of Grants and Contracts;

c. review and approve all minor store rates within his/her unit unless the Dean chooses to delegate this particular responsibility;

d. review and approve all special requests for store rate adjustments at mid-year with the advice and consent of Grants and Contracts; and

e. review the performance of all major stores with respect to breakeven at fiscal year-end.

4.02 Store Manager
The Dean normally delegates day-to-day responsibility to the Store Manager who monitors the operation and takes corrective actions as needed. The Store Manager has an obligation to ensure that:

a. a schedule of rates for major stores is prepared and submitted to the Dean for review and approval by March 1 (earlier submission is encouraged);

b. a schedule of rates for minor stores (as defined above) is prepared and submitted for approval by the Dean (or his/her designee) by March 1;

c. the store's financial results with respect to "breakeven" are reviewed at year-end, and future rates are adjusted for over-recoveries or under-recoveries as appropriate;

d. the approved rate schedule is applied in accordance with CAS to all users;

e. store equipment is reconciled with Property Management's inventory listing on an annual basis;

f. depreciation is incorporated in store rates in accordance with the procedures set forth in this policy; and
g. billings are timely and adequately documented, and receivables are controlled and reconciled.

4.03 Grants and Contracts
Grants and Contracts is assigned the responsibility for the following:

a. approve the formation of new stores and the establishment of new store accounts;

b. assist store managers with policy and procedural matters;

c. perform an annual review of all major store rate calculations prior to approval by the Dean;

d. review the performance of all major stores with respect to breakeven at fiscal year-end; and

e. review special requests for adjustments to store rates at mid-year.

4.04 Risk, Plant, and Property Management
Risk, Plant, and Property Management will be responsible for calculating equipment depreciation for each store. Monthly, Property Management will record a journal entry for depreciation. Refer to part 7.07 for discussion of depreciation. As equipment is purchased, it will be capitalized using payment documents processed by University Accounting. Each store will annually reconcile its equipment database with Property Management's inventory listing.

4.05 Internal/External Auditors
Internal and external auditors will be requested by Grants and Contracts to consider selecting stores in their long-term workplan to ensure compliance with OMB Circular A-21 and the principles set forth in this policy.

RECOVERY REQUIREMENTS

5.01 This section sets forth the policies governing stores to ensure compliance with federal cost principles. As noted above, Circular A-21 contains the cost principles used to determine amounts that may be recovered from federal grants and contracts. The principles of Circular A-21, with regard to rates based on cost and nondiscriminatory pricing, apply to the determination of store rates used for all billings at OSU.

5.02 Nondiscriminatory Rates
Rates charged to internal users (refer to the definitionn in part 3.02) must be
nondiscriminatory, and all internal users must be billed for services received. "Nondiscriminatory" means that an individual store will charge *all internal users at the same rate for the same level of services or products purchased in the same circumstances*. Therefore, rates should not differentiate between users within the OSU community. The use of special rates, such as for high volume work and less demanding nonscientific applications, are allowed; but they must be *equally* available to all users who meet the criteria.

The University may wish to provide goods or services to a particular *internal* group of users at no charge or a lower rate than other users (e.g., audio visual services as part of an instructional program). In this situation, the store must calculate the same billing rate *for all internal users* based on total store expenses and total units of output. Stores may not give away or reduce their charges for goods or services. The recipient of goods or services, and/or a sponsoring account, must be charged the full amount of normal charges for the goods or services.

The above discussion concerning nondiscriminatory rates applies to internal users of the store's services.

5.03 Billing Period
Services should not be billed until the service has been rendered; that is, prepayments are not appropriate. If a prepayment is received, it must be recorded as a liability in the store's account until earned. Each store must operate in accordance with the University's fiscal year, which is July 1 through June 30. Stores should handle year-end billings consistently to ensure that twelve months of cost recovery are associated with twelve months of incurred cost. This provides a more accurate breakeven calculation at year-end.

5.04 Breakeven Concept
Store rates are generally calculated based on budgeted projections of operating expenses and projected volume of the services or products to be provided. The goal of the store is to calculate a rate which will ensure that revenues reasonably offset expenses. "Operating at breakeven" means there is no significant profit or loss as a result of charging users for the services provided in any particular period, and no profit or loss over the long run.

If a store ends a given fiscal year with an actual operating surplus or deficit *within 10%* of breakeven, the profit or loss must be factored into the following year's rate calculation. Refer to the discussion of "Treatment of Over/Under Recoveries" in *part 8.04*.

5.05 Working Capital
All stores need a reasonable working capital to manage their cash flow. Therefore, each store may establish and maintain through its charges a working capital reserve, in addition to full recovery of its actual costs. Neither Circular A-21 nor CAS specifically addresses this issue for colleges and universities. Therefore, OSU has referred to OMB Circular A-87, Attachment C, Section G.2 (which applies to state and local governments) for guidance. Based on that document, OSU has established that a store's working capital should not exceed 60 days.

5.06 Long-Term Breakeven Agreements
In unique situations, when a store requires a multiple-year period in which to recover or spread out operating costs, a long-term breakeven agreement may be negotiated. This usually occurs when operations require large initial capital equipment and building costs. However, such agreements must be negotiated by Grants and Contracts with the cognizant agency. The need for such an agreement must be presented to and reviewed by Grants and Contracts.

5.07 Unallowable Costs
Unallowable costs may not be budgeted or expensed on store accounts and may not be included in the user rate calculations when prohibited by Circular A-21. Such expenses (e.g., alcohol, entertainment, unallowable travel) must be excluded from the rate calculation. Refer to Section J of Circular A-21 for a list of unallowable expenses.

**ESTABLISHING STORE ACCOUNTS**

6.01 All stores must maintain a separate account. Stores will be assigned a Ledger 2 account to be used solely for the purpose of accounting for the store operations. All allowable store operating costs, including depreciation, should be charged to this account. Revenues should be charged to the appropriate revenue subcodes in the Ledger 2 account. All revenues generated by external users should be charged to a separate subcode in order to segregate external and internal revenues.

In addition, each store will be assigned a Ledger 7 account, which will be used to record the depreciation credit. This account will be used as a funding source to purchase capital assets.

In order to permit proper identification of applicable equipment, all store equipment (and only that equipment) should be purchased directly out of the related Ledger 7 account. This is true even if transfers must be made from other unrestricted sources to cover shortfalls in funding these equipment purchases. Transfers out of these reserves to other unrestricted accounts can be made to the extent that these funds are not going to be needed for future store equipment purchases.
All stores which have not yet established a separate store account are responsible for immediately contacting Grants and Contracts. Likewise, requests to establish new stores and/or new store accounts should be approved by Grants and Contracts. This provides the University with an opportunity to review the proposed store for desirability and feasibility, and to ensure the store will operate in accordance with federal cost principles and University policies and procedures. After review, Grants and Contracts will forward the new account requests to University Accounting.

The store account request form, outlined in Appendix III, should include the following information:

a. a description of the products or services to be provided;

b. a description of the users of these services;

c. an explanation of how the store rate was determined, including:
   (1) a detailed budget of annual expenses for the store;

   (2) a description of the unit of service (i.e., the measure of utilization such as labor hours, machine hours, CPU time, etc.) and estimated activity for the budget period; and

   (3) the rate calculation, using budgeted amounts and the projected level of activity for the first year of operation. (If a new store is established mid-year, the initial budget and breakeven period may be for longer than twelve months.)

d. the name, title, phone number, and signature of the Store Manager;

e. the signature of the Dean (or equivalent), indicating acceptance of operating and financial responsibility for the store;

f. justification of the need to create the new store, including an explanation as to why other internal or external providers of this service are not being used in lieu of establishing the new store operation; and

g. requests for the creation of the following new accounts for each business line:
   (1) Operations--for operating revenues and expenses;

   (2) Equipment--for capitalization of equipment; and

   (3) Unexpended plant fund--for depreciation of equipment, buildings, and non-structural improvements.
STORE RATE COST COMPONENTS

7.01 Direct Personnel
An appropriate portion of the salaries and wages of all personnel directly related to the store's activities (e.g., lab technicians or machine operators) should be included in the rate calculation and charged to the store's operating account. The portion of such an individual's salary which should be charged to the store account is that percentage which represents the proportion of effort applied to this activity versus the individual's other OSU activities.

7.02 Administrative Staff
The appropriate portion of the salaries and wages of administrative staff supporting a store, even if it is only for a portion of their time, should also be charged to the store operating account and should, therefore, be included in the rate calculation. This category does not include support which is only general administrative support (e.g., that which might be incurred by the Dean in reviewing proposed rate changes). However, it does include effort applied in direct management of the store operations (e.g., the maintenance of the store billing system). The portion of such an individual's salary which should be charged to the store account is that percentage which represents the proportion of effort applied to this activity versus the individual's other OSU activities.

7.03 Fringe Benefits
Stores will be allocated fringe benefit costs of all personnel directly charged to the store operating account. These costs should be included in the rate calculation.

7.04 Supplies and Expenses

Materials and Supplies
The costs of materials and supplies needed to operate the store should be included in the rate calculation. Volume discounts may make it prudent to order large quantities of supplies at times. Over-accumulation of inventory should be avoided.

Store Inventories
Commonly, a store will base its operations on an inventory (e.g. a chemical stockroom) or will maintain an inventory of parts and supplies used in providing the service (e.g., a machine shop). Stores maintaining inventories for these purposes may not treat unused inventory costs as a current operating expense in computing billing rates. Unused inventories maintained for resale will need to be accounted for as assets of the University. A physical count of inventory must be taken at least annually and reported to Accounting Services by July 15.
Other Costs
Other costs associated with the operation of stores which may be included in store rates are:

a. rental and service contracts;

b. special conferences related specifically to the store; or

c. professional services.

These costs should be properly identified by object code. Please contact Grants and Contracts for any questions regarding the allowability of costs or refer to Circular A-21.

7.05 Credits to Expenditure Accounts
Credit adjustments resulting from returned goods, overpayments or erroneous charges should be recorded as a credit to the expense subcode originally charged. Credit adjustments should not be recorded as revenue because this will overstate the store's revenues and expenses.

7.06 Capital Equipment
Capital equipment is defined as an item with a value greater than $500 and a useful life of more than two years. Federal guidelines do not allow the purchase cost of a capital item to be recovered through store rates. It is appropriate, however, to recover the depreciation, external interest, or capital lease costs associated with that asset. Therefore, the purchase price of capital equipment should not be charged to the store account but rather to the store related Ledger 7 account. Equipment which is not capitalizable may be treated as a store operating expense in calculating billing rates.

7.07 Depreciation
Depreciation is a charge to current operations which distributes the cost of a capital asset, less the estimated salvage value, over the useful life of that asset in a systematic and logical manner. Depreciation will be calculated using the straight-line method. Under no circumstances shall depreciation exceed the total acquisition cost of the asset. Depreciation is not allowable on assets fully depreciated by the University, including assets that have outlived their depreciable lives. Monthly, a journal entry will be recorded by Risk, Plant, and Property Management to debit the store Ledger 2 account for the actual depreciation expense, and to credit a store designated equipment reserve account in Ledger 7 plant funds.

Each year, stores will need to budget depreciation amounts to be used in establishing rates for the following year. All stores should include depreciation on equipment in
the rate calculation. A summary list of estimated useful lives by equipment class is included in Appendix V. Property Management will be responsible for calculating depreciation for store equipment. Major stores should also include depreciation on buildings and non-structural improvements in the rate calculation. Building depreciation will be allocated to each store based on the square footage identified with the store in the annual space survey. Grants and Contracts will be responsible for calculating depreciation for store buildings and non-structural improvements.

Stores which have "specialized equipment" are encouraged to work with Property Management to establish an accurately estimated useful life for that equipment. For the purposes of these policies and procedures, specialized equipment is defined as equipment which is unique to the specific store activities and not common to other University departments. In establishing the useful life for specialized equipment, stores shall take into consideration factors unique to the assets involved (e.g., nature of equipment or technological developments in the particular area).

7.08 Disposal of Equipment

Major stores should include a gain or loss from the disposal of equipment with a net book value (i.e., purchase cost less accumulated depreciation) which equals or exceeds $5,000 as either a credit or charge to operating expenses in the rate calculation in the year of disposal. To identify these gains or losses, equipment with a net book value which equals or exceeds $5,000 must be sold by sealed bid pursuant to the procedures of Risk, Plant, and Property Management.

7.09 Federally-Funded Equipment

Depreciation of equipment purchased by the federal government, whether or not title has reverted back to the University, cannot be included in user rates. Federal funding of equipment is identified by its payment from a Ledger 5 (i.e., federal grant) account. Depreciation of equipment used as cost share also cannot be included in user rates. Pursuant to part 2.03 of the OSU policy, "Cost Sharing in Sponsored Research and Service Projects", equipment used as cost share must be identified in the moveable inventory system through the use of an Ownership Code of '9001'. The funding of existing equipment can be viewed online in the Risk, Plant, and Property Management equipment database.

7.10 Equipment Inventory

It is important that the government not be charged for equipment depreciation through a user charge and again through the depreciation portion of the research indirect (F&A) cost rate. To avoid this, stores will need to notify Risk, Plant, and Property Management of all existing store equipment. In addition, the store will annually reconcile its equipment with Property Management's inventory listing so that depreciation of these items is not included in the University's indirect (F&A) cost
calculation.

7.11 Debt Funded Equipment
Federal regulations allow only for the recovery of interest associated with the debt for the purchase of equipment if all three of the following criteria are satisfied:

a. an external financing source was used;

b. equipment costs are over $25,000; and

c. the arrangement is agreed to by the cognizant agency.

7.12 Space
Space occupied by all major or minor stores should be identified and designated as such during the annual space survey. Space which is occupied by store equipment must be assigned as store space, rather than departmental space.

7.13 Operation & Maintenance and Utility Costs
Effective July 1, 1996, all major stores will be allocated utilities and operations & maintenance costs. Major stores should include these costs in calculating their internal and external user rates.

Minor stores will not usually be assessed utilities and operations & maintenance costs except in extraordinary usage situations.

RATE DEVELOPMENT

8.01 General Chargeout Rate Defined
A store rate is the cost per unit of output used to recover the expenses of the store. To compute this rate, departments should use the following equation:

\[
\text{Budgeted Expenses} \pm \text{Prior Year Under/Over Recoveries (within } \pm 10\%) \\
\text{Budgeted Level of Activity (Usage Base)}
\]

The budgeted usage base or denominator in the above formula is the volume of work expected to be performed as expressed in units (e.g., labor hours, machine hours, CPU time or any other reasonable measurement). The calculated rate using the budgeted activity is then applied to the actual level of this activity when charging users.

For example, a computer costs approximately $100,000 each year to operate (allowable costs) and has an estimated use or activity level of 1,500 hours during that year. This would result in a rate of $100,000/1,500 hrs = $66.67 per hour. If a researcher uses the computer for four hours for a sponsored project, then his or her
award should be charged 4 x $66.67 or $266.68.

Store rates should be calculated for a fiscal year. When a store is established in mid-year, rates may be set for longer than twelve months so that the end of the first breakeven period coincides with a fiscal year-end.

8.02 Types of Usage Bases
The usage base or activity level is used to arrive at a billing rate which reasonably allocates store costs in proportion to those receiving its benefits. Selection of an appropriate usage base is essential to ensure that users pay only their share of the costs for the services rendered. Two methods are most commonly used to determine the usage base: consumption and output. These methods distribute costs based on a unit of measurement (e.g., hours, pounds, or gallons).

A consumption base is used when expenses are directly proportional to the amount consumed. For example, assume that labor and equipment usage costs can be accurately identified as being consumed on an hourly basis. This means that, for each hour of service, a proportional increase in labor and equipment usage occurs. In this case, the store would base the charges on the number of hours of service provided.

Another basis of allocation may be a measure of the output of the store. An output based rate is calculated when the total cost of the store is divided by the total anticipated number of units produced per year (e.g., pages printed). A specimen store budget with rates established on both the consumption base and the output base is found in Appendix I.

Projected Expenditures
Annual store expenses are budgeted in the same way as other departmental expenditure accounts. Budgeting considerations may include changes in operating expenses, changes in depreciation, or other known fluctuations. The establishment of a separate account and clear identification of cost types by subcode will facilitate annual submission of projections.

Projected Revenues
Stores should attempt to match the amount of revenues with the budgeted level of expenses through development of user rates. When estimating sales or usage levels, considerations may include prior year performance as well as known future needs of internal and external users.

8.03 Review of Rate Calculations
Each year, all major stores must submit a budget and rate schedule by March 1 for the following fiscal year for review and approval by Grants and Contracts and the Dean.
The budget and rate schedules should be developed to correspond to the University's fiscal year as the rates submitted will become effective July 1. The Rate Development Worksheet in Appendix II should be used to submit rate information to Grants and Contracts and the Dean.

Each year, all minor stores will be required to submit information to the appropriate Dean for approval by March 1 on how rates were determined.

8.04 Treatment of Over/Under Recoveries
Although stores target breakeven through budgeting and rate setting, seldom do expenses exactly match revenues. OSU has defined a breakeven policy stating that a store's surplus or deficit for a given fiscal year should not exceed 10% of annual operating expenses, computed as of the final closing of the books on June 30. Under or over recoveries should be calculated based on actual revenues and expenditures as outlined in Appendix IV.

To the extent that a store's annual operating surplus or deficit is within the breakeven range of +/- 10%, that surplus or deficit must be applied to the following year's rate calculation so the operation will breakeven over time. For example, the rates submitted for approval by March 1, 1996, for fiscal year ending June 30, 1997, would be based on the 1997 projected volume and expenses and under/over recoveries carried forward from the fiscal year ending June 30, 1995.

Example: Store XYZ FY 1995 FY 1997
Actual Budgeted
Total Revenues $230,000 Budgeted expense $250,000
Total Expenses (220,000) Less: P/Y Surplus (10,000)
Surplus $ 10,000 Total budgeted exp. $240,000

Since the surplus is within plus or minus of 10% [(230-220)/220]=4.5%, it will be subtracted from the next year's budgeted expenses thereby reducing the rate calculated.

8.05 Surpluses
When it appears that a store is going to end a given fiscal year with an operating surplus for the twelve months exceeding the 10%, this excess surplus (the portion beyond the 10%) should be adjusted via a mid-year reduction in rates. Refer to the section on "Mid-year Review" in part 9.01. If, at fiscal year-end, the operating surplus exceeds the 10% threshold, the store will be required to negotiate a long-term breakeven agreement with the University's cognizant agency so that rates do not exceed costs over an accepted period of time.
Stores which have accumulated surplus funds through overstated billing rates may not transfer these funds out of the store operating account as the balance must be used to adjust subsequent billing rates.

8.06 Deficits
When it appears that a store is going to end a given fiscal year with an operating deficit for the twelve months exceeding the 10%, this excess deficit (the portion beyond the 10%) should be adjusted via a mid-year increase in rates. Refer to the section on "Mid-year Review" in part 9.01. If, at fiscal year-end, the operating deficit exceeds the 10% threshold, the store may be required to negotiate a long-term breakeven agreement with the University's cognizant agency so that rates recover costs over an accepted period of time.

8.07 Pricing of Multiple Services
A store providing more than one service may sometimes make a surplus on some services and a loss on others. Combining the results of various services is acceptable as long as the mix of users of each service is not different, and the higher prices charged to one set of users are subsidizing only those losses charged to that approximate group of users.

MONITORING PROCEDURES

9.01 Mid-Year Review
The store manager should evaluate the store's financial position and rates periodically throughout the year to assess their position with respect to breakeven. Under special circumstances (refer to the sections on "Surpluses" and "Deficits" in parts 8.05 and 8.06), rates will be adjusted through a mid-year reduction/increase in rates, subject to review by the Dean and Grants and Contracts. Mid-year rate adjustments will be treated as exceptions.

9.02 Request for Rate Change During the Year
Store rates should be adjusted as soon as it is evident that a store will not fall within breakeven range using the calculated rate. A mid-year rate adjustment for a major store will be subject to review by the Dean and Grants and Contracts. The new rate will be approved by the Dean (or his/her designee) with the advice and consent of Grants and Contracts.

9.03 Year-End Rate Performance Review
At fiscal year-end, all major stores will be required to submit to the Dean and Grants and Contracts the actual financial results as calculated in the Revenues and Expenses Worksheet in Appendix IV.
BILLING PROCEDURES

10.01 All billings should be charged to OSU accounts via campus vendor invoices (CVI). External users should be billed via invoice. Billings must be based upon measured and documented utilization which is properly authorized for the account charged. All billings will be at established store rates. The support for the charges should be retained by the store to answer any user or audit inquiries.

The invoice or CVI must provide sufficient documentation of the charges, enabling the documents to "stand alone" in the event of a subsequent review. For an invoice to stand alone, an uninformed reader should be able to determine the following:
   a. purpose of the charge (e.g., photocopying);
   b. how many units (e.g., pounds, hours, # of items); and
   c. amount charged per unit (e.g., $0.5/photocopy).

The invoice should contain a description that will aid in determining why a particular amount was charged to an account. When charges are divided among several account numbers, a basis for the allocation must be provided. Advance billing for services or products is not allowed.

10.02 Billing External Users
Before a service is provided to an external customer, he/she will be queried as to whether the service is available through the private sector. The purpose of this inquiry is to ensure that the University is not in competition with the private sector.

At a minimum, external users will be charged for the full direct costs of the store operation. An allocable share of the University's indirect (F&A) costs of the store operation may be charged to external users. At no time will an external customer be charged less than the federal government and internal users. The federal government will always be treated as the most favored customer. Sales tax, when applicable, must be charged to all external users who do not provide a tax exempt certificate.

10.03 Billing System Controls
Internal billings, if not immediately charged, should be prepared no later than during the first week following the end of the month. On a monthly basis, the store activity should be reconciled to the subledger system. Reconciling items must be followed up and corrected prior to the next month-end closing.

10.04 Cash Controls
Some stores, due to the nature of their services or products, have cash sales. Cash sales are treated in the same manner as sales to external users (i.e., a portion of University overhead costs and applicable sales tax must be added to the cost of the goods).
All store cash collections must adhere to OSU Policy & Procedures Letter (3-0331). The following guidelines should be utilized for proper cash controls:

a. cash shall be deposited with the Office of the Bursar daily;

b. cash received should be evidenced by the issuance of a receipt, one copy of which is to be given to the payor, and one copy is to be retained in the department to identify cash on hand;

c. all checks received are to be endorsed with a restrictive endorsement and entered into a departmental check log immediately upon receipt; and

d. the responsibility for preparing and making the deposit with the Bursar should be assigned to an employee other than the one assigned to open the mail, inspect checks, and maintain the check log.

**RECORD RETENTION**

11.01 It is the responsibility of the store management to maintain records of the details involved in all store charges and to answer inquiries concerning those charges. Store charges are subject to audit as long as the grants or contracts they charge remain subject to audit. All store activity must be documented and records maintained to support expenditures, billings, and cost transfers. Each store must retain the following:

a. workpapers documenting the rate calculation;

b. justification of the selected utilization base;

c. documentation, including invoices, of actual costs of operations;

d. approval of the rate from the rate review committee, if applicable; and

e. records documenting and measuring the use of the services or products.

All financial records and supporting documents, including salary and wage documents pertinent to a store's activity, must be retained for at least seven years unless a litigation claim or audit is started before the expiration of this period. In this case, records shall be retained for seven years after all litigation, claims, or audit findings are resolved. Charges to grants and contracts are subject to challenge for three years and sometimes four or more years, after the project expires and is fully settled. Because some projects run over ten years, there is no simple rule-of-thumb for a holding period. If there is any doubt concerning how long records should be maintained, please contact Grants and Contracts.
SPECIALIZED SERVICE FACILITIES

12.01 Specialized Service Facilities are defined in Circular A-21, Section J.44, as highly complex or specialized facilities. The rates of these facilities should include their appropriate share of University overhead costs. The language in Circular A-21 is not precise; however, the University has defined its specialized service facilities as meeting all of the following criteria:

a. the store incurs substantial annual expenses and chargeout volume;

b. treatment of its indirect (F&A) costs within the store rate rather than as part of the overhead pool would "materially" affect the University-wide overhead rate; and

c. its services should not be easily available from external vendors or have been the subject of an agreement between the University and the cognizant agency.

If a store meets the criteria to be considered a specialized service facility, the store rates must be set to recover both its direct costs and its allocable share of the University's administrative and facility-related indirect (F&A) costs. The costs to be charged to a specialized service center are:

- general and administrative;
- operations and maintenance, including utilities;
- depreciation/use allowance of equipment and buildings; and
- external interest, if approved by the cognizant agency.

The general and administrative and building use allowance costs allocable to specialized service facilities will be provided by Grants and Contracts. Stores designated as specialized service centers will be required to follow the procedures for major stores (with additional rate components) as set forth in these policies and procedures.

APPENDIX I

RATE DEVELOPMENT ILLUSTRATION

FORECASTED OPERATING COSTS OF A STORE*

<table>
<thead>
<tr>
<th></th>
<th>Total Departmental Costs</th>
<th>% Related to Store**</th>
<th>Cost Allocable to Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages</td>
<td>$600,000</td>
<td>20</td>
<td>$120,000</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>90,000</td>
<td>20</td>
<td>18,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>25,000</td>
<td>100</td>
<td>25,000</td>
</tr>
<tr>
<td>------------------</td>
<td>--------</td>
<td>-----</td>
<td>--------</td>
</tr>
<tr>
<td>Materials</td>
<td>60,000</td>
<td>100</td>
<td>60,000</td>
</tr>
<tr>
<td>Telephone</td>
<td>5,000</td>
<td>100</td>
<td>5,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>15,000</td>
<td>100</td>
<td>15,000</td>
</tr>
<tr>
<td>Prior Year (Surplus)/Deficit</td>
<td>-15,000</td>
<td>-15,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$780,000</td>
<td>$228,000</td>
<td></td>
</tr>
</tbody>
</table>

* Assume this store could be either a machine shop or a printing center.

** All store costs should be included in a separate store account. However, if any store costs remain in the departmental account, they should be allocated as demonstrated above.

**CONSUMPTION APPROACH:**

**Machine Shop**

**FORECASTED MACHINIST HOURS:**

40 Hours/Week * 52 Weeks = 2,080 Hours/Year

# Of Machinists: 2 * 2,080 = 4,160 Total Billable Hours

Consumption Rate = $228,000 Total Cost / 4,160 Total Machinist Hours = $54.80 /Hour

**OUTPUT APPROACH:**

**Print Shop**

Estimated Output:

Total Pages Printed 1,000,000

Unit Cost Rate = $228,000 Total Cost / 1,000,000 Pages Printed = $ .23 Page

Note: It is important for the chosen activity base to relate directly to what drives costs. For example, establishing a printing rate based on hourly use would not accurately distribute the costs of paper, ink, and other supplies. These costs directly relate to the amount of printing output. In addition, measuring the usage hours of printing activity would be difficult, and printing achieved each hour could vary greatly.

**APPENDIX II**

Oklahoma State University

**RATE DEVELOPMENT WORKSHEET**

1. Store Name: ____________________________

   Parent Department: ____________________________
Store Account(s): ________________________________

2. Period rate development is effective: From: __________
   To: __________
3. Estimated Costs:
   a. **Salaries & Wages** (please list all salaries and wages that will be charged to the store account):

<table>
<thead>
<tr>
<th>Name</th>
<th>Salary</th>
<th>Fringe</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td></td>
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<td></td>
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<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Salaries</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   b. **Cost of goods sold, including supplies, services, and miscellaneous expenses** (indicate the type of expense and the estimated amount to be charged to the store account):

<table>
<thead>
<tr>
<th>Type of Expense</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

   Total Other Expenses

   c. **Equipment Depreciation** - Actual depreciation amounts are to be calculated by Risk, Plant, and Property Management. In computing next year's rates, Store Managers should consider prior year actual depreciation, likely acquisitions, and retirements as well as items that will become fully depreciated.

   For example:

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Useful Life</th>
<th>Original Cost</th>
<th>Less: Accumulated Depreciation</th>
<th>Current Year Depreciation</th>
<th>Amount Remaining to Depreciate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   Totals

4. Total Expenses Calculation:
Salaries $
Other expenses $
Depreciation expense $
General & administrative allocation (if applicable) $
Over recovery from prior period (subtract) $
  Under recovery from prior period (add) $

Total Expenses $

5. Estimated Number of Units Produced/Consumed
(please specify units; e.g., hours, minutes, pieces, tests)

Sponsored projects
Own department
Other University departments
Outside University
  Total Output/Consumption

6. Rate Development:
   Cost per unit
   (Divide total expenses by total output/consumption)

Approvals:

_________________________________________
Dean

_________________________________________
Store Manager

_________________________________________
Grants and Contracts

APPENDIX III

Oklahoma State University
REQUEST FOR ESTABLISHING A NEW STORE

1. Store Name:

2. Affiliated Department:

3. Provide a detailed description of products or services to be rendered.

4. Describe the potential users of the store (e.g., specific departments, sponsored
research projects, students, external users, etc.).

5. List the employees who are included in the budget, detailing their function and salary with respect to this store.

6. Attach a detailed budget of all annual costs associated with the store and rates to be charged (refer to Rate Development Worksheet).

7. Describe the usage base to be used in the rate calculation (i.e., labor hours, units processed, etc.) and the estimated level of activity for the budget period.

8. List funding sources other than recoveries from user charges.

9. Attach requests for the creation of the following new accounts for each business line:
   a. Operations (x-2-xxxxx)--for operating revenues and expenses
   b. Equipment (x-0-8xxxx)--for capitalization of equipment
   c. Unexpended plant fund (x-7-xxxxx)--for depreciation of equipment, buildings, and non-structural improvements

10. Store Responsibility:
    Name Position Phone Number

11. Approval signatures/Acceptance of operating and financial responsibility:
    Department Head ________________________
    Dean ________________________

APPENDIX IV

Oklahoma State University
Revenues and Expenses WORKSHEET

<table>
<thead>
<tr>
<th>Subcode</th>
<th>Description</th>
<th>Final Actuals 6/30/9x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Administrative (Regular)</td>
<td></td>
</tr>
<tr>
<td>IRS</td>
<td>Estimated Asset Usefulness</td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>---------------------------</td>
<td></td>
</tr>
</tbody>
</table>
| 00.11 | Office Furniture, Fixtures, and Equipment: Includes furniture and fixtures that are not a structural component of
<p>| 7     |                           |</p>
<table>
<thead>
<tr>
<th>Code</th>
<th>Class Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>00.12</td>
<td>Information Systems: Includes computers and their peripheral equipment. Does not include communication equipment that is included in other classes.</td>
</tr>
<tr>
<td>00.13</td>
<td>Data Handling Equipment, except Computers: Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment.</td>
</tr>
<tr>
<td>00.21</td>
<td>Airplanes (airframes and engines)</td>
</tr>
<tr>
<td>00.22</td>
<td>Automobiles</td>
</tr>
<tr>
<td>00.23</td>
<td>Buses</td>
</tr>
<tr>
<td>00.241</td>
<td>Light General Purpose Trucks</td>
</tr>
<tr>
<td>00.242</td>
<td>Heavy General Purpose Trucks</td>
</tr>
<tr>
<td>00.26</td>
<td>Tractor Units for Use Over-The-Road</td>
</tr>
<tr>
<td>00.27</td>
<td>Trailers and Trailer-Mounted Containers</td>
</tr>
<tr>
<td>00.28</td>
<td>Vessels, Barges, Tugs, and Similar Water Transportation Equipment</td>
</tr>
<tr>
<td>80.0A</td>
<td>Personal Property which does not belong to other categories</td>
</tr>
<tr>
<td>80.0B</td>
<td>High technology medical equipment</td>
</tr>
<tr>
<td>80.0C</td>
<td>Property Used in Connection with Research and Experimentation</td>
</tr>
</tbody>
</table>